Flexible Spending Accounts

Flexible spending accounts (FSAs) allow you to set aside before-tax dollars from your paycheck to pay for expenses not covered through your other benefits. When you put money into an FSA, you don't pay federal or Social Security (FICA) taxes on it. As a result, your taxable income is reduced and your taxes are lower.

The county offers two FSAs for all benefit-eligible employees:

- health care FSAs, which allow you to set aside before-tax dollars to pay for certain expenses not covered by your medical, dental and vision plans—for example, copays for office visits and the cost of orthodontia not fully paid by your dental plan; and
- dependent care FSAs, which allow you to set aside before-tax dollars to pay for eligible dependent day care expenses for your child, disabled spouse or dependent parent while you and your spouse work or look for work.

Plan benefits are funded through employee before-tax salary reduction contributions, as permitted by Internal Revenue Code Section 125. The county pays the administrative expenses of the plan to the extent those expenses aren't paid from the plan.

In This Section — See Page

Participating in FSAs

To effectively use your flexible spending accounts (FSAs), you need to know how they work. This section explains who is eligible, how and when to enroll, when participation begins and ends, and how certain life event changes affect your eligibility to participate in FSAs.

FSA PARTICIPATION INFORMATION ONLY

The information about eligibility and changing your coverage in this section applies to FSAs only.

For eligibility and participation information regarding the county's other benefits, see the separate descriptions of each benefit in this handbook.

Who Is Eligible

You're eligible to participate in an FSA when you become a benefit-eligible employee as a part-time transit operator or an assigned on-call employee represented by Local 587 in either the Partial Benefits Plan or Full Benefits Plan.

For more information about your benefit plans, see "Who Is Eligible" in "Participating in the Health Care Plans" in *Health Care*.)

When and How to Enroll

You may enroll in an FSA when:

- you're first eligible for benefits; or
- you make your benefit elections during an annual open enrollment.

If you decline benefits under the Partial Benefits Plan when you're first eligible, you may participate in an FSA if you later:

- enroll in the Partial Benefits Plan during an annual open enrollment or because of a qualifying life event; or
- become eligible for the Full Benefits Plan and don't already have benefits under the Partial Benefits Plan.

When you enroll, you enroll for the calendar year (January 1–December 31). You must re-enroll each year during the county's annual open enrollment to continue participating the following year. If you don't enroll during the annual open enrollment, you won't be able to enroll after December 31 unless you have a qualifying life event.

Generally, you may not make changes until the next annual open enrollment period. However, you may have an additional opportunity to make changes if you have a qualifying life event. (For more information, see "Making Changes After a Qualifying Life Event" on page 213.)

Enrolling When First Eligible

You receive FSA information and a Flexible Spending Account Enrollment form when you first become eligible for benefits.

You must return your enrollment form within 30 days of your benefit-eligibility date to Benefits and Retirement Operations. (See *Contact Information*.) Your benefit-eligibility date is the day you first report to work or the day you qualify as a part-time transit operator, whichever is later.

Your FSA information includes an FSA Authorization for Automatic Reimbursement Deposits form so you can have FSA reimbursements deposited directly into a checking or savings account if you choose. (You may opt not to have FSA reimbursements deposited directly when you first enroll, but you may later contact Fringe Benefits Management Company (FBMC), the FSA third-party administrator, to set up direct deposit.)

FORMS

Forms are available at www.metrokc.gov/employees/benefits or from Benefits and Retirement Operations. (See *Contact Information*.)

Enrolling During the Annual Open Enrollment

Each year, the county holds an annual open enrollment. During this period, you have the opportunity to enroll online for the first time or re-enroll in an FSA, and to determine your contribution amount for the upcoming calendar year. Elections made during the annual open enrollment take effect the following January 1 and remain in effect through December 31 of that calendar year.

You must re-enroll online every year if you want to participate in an FSA the next year.

When and How to Make Changes

The election you make when you enroll in an FSA remains in effect for the entire calendar year. The only times you may change your elections—either begin, increase, decrease or stop contributions to an FSA—are:

- during the annual open enrollment for the following calendar year; and
- when you have a qualifying life event in the current calendar year.

CHANGES MUST BE CONSISTENT WITH YOUR QUALIFYING LIFE EVENT

Keep in mind that most of the changes you may make to your FSA participation must be consistent with your qualifying life event—for example, if you get married, you may change your contribution amount to cover your new spouse's eligible health care expenses.

Making Changes After a Qualifying Life Event

Because of the tax advantages available to you when you make FSA contributions on a before-tax basis, Internal Revenue Service (IRS) rules limit when you can enroll and change your contribution amount. That means the enrollment choices you make when you first become eligible or during an annual open enrollment are generally in effect for the entire year for which you enroll.

However, because your needs for benefits typically change when you experience certain "qualifying life events"—such as getting married or having a baby—you're allowed to make changes in some situations, in accordance with federal rules, as long as you make your change within **30** days following the event.

Changes in Status

Various events may qualify you to enroll in an FSA or to make certain changes to your FSA participation. Generally, the events must affect your or your dependent's eligibility for coverage under an employer plan (including plans of other employers). Examples of qualifying life events include:

- a change in your legal marital status due to marriage, legal separation, annulment, divorce or death of a spouse;
- a change in the number of your tax dependents due to birth, adoption or placement for adoption, or death of a dependent;
- a change in employment status for you, your spouse or a dependent due to:
    - termination or commencement of employment;
    - a reduction or increase in work hours;
    - a switch from salaried to hourly paid, from union to non-union, or from part-time to full-time status;
    - a strike or lockout;
    - the beginning of or return from unpaid leave of absence;
    - any other employment status change that affects FSA eligibility;
- a change in your residence or workplace or the residence or workplace of your spouse or a dependent that affects FSA eligibility;
- a change that causes a dependent to satisfy or cease to satisfy the requirements for coverage due to age, marriage or any similar circumstances provided for in the benefit plans;
- a change due to certain judgments and court orders; and
- a change in cost of dependent care due to a change in provider.

To change your FSA election when you have a qualifying life event, you must notify Benefits and Retirement Operations of the change online within 30 days of the date of the qualifying life event. The change must be consistent with and as a result of the qualifying life event. The new election begins as of the date of the qualifying life event.

HOW TO MAKE CHANGES ONLINE

To make changes to your FSA, complete the appropriate county form online at the Benefits and Retirement Web site at www.metrokc.gov/employees/benefits. At the Web site, click “My Benefits” in the left navigation menu and follow the directions. Most non-county forms are available on the Benefits and Retirement Web site. For forms not available on the Web site, contact the appropriate company or agency. (See *Contact Information*.)

You may also submit an FSA Authorization for Automatic Reimbursement Deposits form so you can have FSA reimbursements directly deposited into a checking or savings account if you choose.

FORMS

Forms are available at www.metrokc.gov/employees/benefits or from Benefits and Retirement Operations. (See *Contact Information*.)

When Participation Begins

The date your FSA begins depends on when you enroll:

- If you enroll in an FSA when you first become eligible for benefits, your FSA begins on the day your benefits begin and continues through the end of the calendar year. If you begin work on the first of the month, your FSA begins on that day. If you begin work on any other day of the month, your FSA begins on the first of the following month.
- If you enroll in an FSA because of a qualifying life event, your FSA takes effect on the first of the month following your qualifying life event and continues through the end of the calendar year.
- When you enroll in an FSA online during the annual open enrollment, your FSA begins on January 1 of the following year and continues through December 31 of that calendar year.

When Participation Ends

Your participation in an FSA ends when you leave employment with the county and don’t continue your benefits coverage under COBRA (Consolidated Omnibus Budget Reconciliation Act) or the retiree medical benefit. (For more information, see “Continuing Coverage Under COBRA” and “Continuing Coverage When You Retire” in *Health Care*.)

However, when you take a leave of absence without pay and don’t continue your benefits coverage, your participation is suspended temporarily until you return to work in a paid status, at which time your participation is resumed.

How to Continue Participation

You can continue participation in your health care and/or dependent care FSA when you:

- leave employment with the county;
- go on a leave of absence under the Family and Medical Leave Act (FMLA); or
- go on an unpaid leave of absence.

Continuing Contributions When You Leave Employment

When you leave employment with the county, you may continue contributing to your health care FSA with after-tax payments and requesting reimbursements through the end of the calendar year as long as you elect to continue the FSA under COBRA or the retiree medical benefit. (For more information, see "Continuing Coverage Under COBRA" and "Continuing Coverage When You Retire" in *Health Care*.) You have until March 31 of the following year to submit reimbursement requests for expenses incurred during the previous calendar year while under COBRA or the retiree medical benefit.

When you leave employment with the county but don't continue your health care FSA under COBRA or the retiree medical benefit, your participation in your FSA ends the day you leave employment. You have until March 31 of the following year to submit reimbursement requests for expenses incurred through the date you left county employment.

Your participation in your dependent care FSA ends the day you leave employment with the county. You have until March 31 of the following year to submit reimbursement requests for expenses incurred through the date you left county employment.

Continuing Contributions Under FMLA

If you go on a leave of absence under the Family and Medical Leave Act (FMLA), you may continue your contributions to your health care and/or dependent care FSA on a before-tax basis through payroll deduction, as long as you're on paid status. If you're on unpaid status under FMLA, you may continue your contributions to your health care FSA with after-tax payments to King County. For more information, contact Benefits and Retirement Operations. (See *Contact Information*.)

Continuing Contributions While on an Unpaid Leave of Absence

If you go on an unpaid leave of absence, your contributions to your health care and/or dependent care FSA are temporarily suspended until you return to work in a paid status. Your participation is resumed at that time, as long as your paycheck is large enough to cover the remaining deductions.

An Overview of FSAs

DEFINED TERMS

Be sure you understand the meaning of the terms used in this summary, such as "federal tax credit." (See "Glossary" on page 232.)

When you choose to participate in an FSA, you decide how much you want to contribute through payroll deduction to either a health care or dependent care FSA, or both, and indicate the amount(s) on the:

- Flexible Spending Account Enrollment form you return to Benefits and Retirement Operations when you're a newly eligible employee; or
- one of the online forms when you have a qualifying life event.

When Benefits and Retirement Operations receives your submitted information, it verifies your eligibility and transmits the information to Payroll Operations (so deductions can be taken from your paycheck) and to a third-party administrator, Fringe Benefits Management Company (FBMC). FBMC sets up your FSA and administers it for the county.

As you incur eligible expenses, you submit reimbursement request forms, receipts and other required documentation to FBMC, and FBMC reimburses you from your account. Reimbursement requests are processed within five days of receipt. If the reimbursement is approved, a check is issued or a direct deposit transmitted the night your request is processed, and an explanation of reimbursement is mailed to your home.

You may submit reimbursement requests for eligible expenses incurred during the calendar year anytime through March 31 of the following year—requests must be received by FBMC no later than March 31. You may also submit multiple bills or receipts with one reimbursement claim form as long as you list them all on the claim form.

FBMC's Reimbursement Request form and FSA Authorization for Automatic Reimbursement Deposits form are available through Benefits and Retirement Operations and its Web site.

FORMS

Forms are available at www.metrokc.gov/employees/benefits or from Benefits and Retirement Operations. (See *Contact Information*.)

Tax Savings

Your FSA contributions are automatically deducted from your pay and deposited into your account in equal amounts throughout the year. Contributions are deducted before federal, Social Security (FICA) and, where applicable, state and local income taxes are withheld. In addition, your contributions aren't reported as income on your federal W-2 statement at the end of the year. As a result, an FSA enables you to lower your taxable income and pay less in taxes.

Up Close and Personal

The following examples help illustrate how contributions to an FSA can provide potential tax savings.

Meet Cindy

Anticipating a major surgical procedure in 2006, Cindy elected to make the maximum contribution of $6,000 to her 2006 health care FSA. The $6,000 contribution lowered her taxable salary from $64,532 to $58,532, resulting in a reduced 2006 tax liability for Line 7, "Wages, salaries, tips, etc." on Form 1040. With a filing status of "single," Cindy reduced her tax liability by $1,500.

Salary	Estimated tax on salary without a $6,000 health care FSA contribution	Estimated tax on salary with a $6,000 health care FSA contribution	Estimated tax savings
$64,532	$12,689 Based on $64,532 taxable salary	$11,189 Based on $58,532 taxable salary ($64,532 – $6,000)	$1,500

Meet Marcus

After estimating child care expenses for the coming year, Marcus made the maximum contribution of $5,000 to his 2006 dependent care FSA. The $5,000 contribution lowered his taxable salary from $62,340 to $57,340, resulting in a reduced 2006 tax liability for Line 7, "Wages, salaries, tips, etc." on Form 1040. With a filing status of "single," Marcus reduced his tax liability by $1,250.

Salary	Estimated tax on salary without a $5,000 dependent care FSA contribution	Estimated tax on salary with a $5,000 dependent care FSA contribution	Estimated tax savings
$62,340	$12,139 Based on $62,340 taxable salary	$10,889 Based on $57,340 taxable salary ($62,340 – $5,000)	$1,250

Estimating Expenses

It is very important that you estimate your expenses as accurately as possible when deciding upon your contribution amounts for a health care FSA or a dependent care FSA, or both. (For information about contribution limits, see “Making Contributions” on page 220 in “How the Health Care FSA Works” and “Making Contributions” on page 228 in “How the Dependent Care FSA Works.”)

Because dependent care expenses are likely to be more predictable than health care expenses, it is usually easier to estimate the amount you may need to contribute to a dependent care FSA for a calendar year.

Because health care expenses are less predictable and because all eligible expenses for you, your spouse and your eligible dependents are reimbursable from your health care FSA, you may find the following worksheet useful in helping you decide on your contribution amount for a health care FSA. Complete the worksheet to estimate eligible health care expenses not covered by your health care plans. (For some of the other things to keep in mind as you estimate your contribution amounts, see “Forfeiting Unused Balances” on page 219.)

Medical Expenses	Estimated Calendar-Year Expenses
Copays	$
Deductibles	$
Physical exams	$
Prescription drugs	$
Surgical fees	$
X-ray or lab fees	$
Other medical expenses	$
Total Medical Expenses	**$**

Dental Expenses	Estimated Calendar-Year Expenses
Copays	$
Deductibles	$
Dentures	$
Examinations	$
Orthodontia	$
Restorative work (crowns, caps, bridges)	$
Teeth cleaning	$
Other dental expenses	$
Total Dental Expenses	**$**

Vision Expenses	Estimated Calendar-Year Expenses
Copays	$
Deductibles	$
Eye exams	$
Prescription contact lenses	$
Contact lens supplies	$
Prescription eyeglasses or sunglasses	$
Total Vision Expenses	**$**

Other Health Care Expenses	Estimated Calendar-Year Expenses
Acupuncture, chiropractic, naturopathy	$
Hearing aids	$
Immunization fees	$
Psychiatrist, psychologist, counseling (allowed for treatment of specific physical or mental disorder, such as depression, alcohol or drug treatment; diagnosis is necessary for reimbursement)	$
Total Other Health Care Expenses	**$**

Health Care Expenses	Estimated Total Expenses
Total Medical Expenses	$
Total Dental Expenses	$
Total Vision Expenses	$
Total Other Health Care Expenses	$
Total Health Care Expenses	**$**

Impact on Other Benefits

Because you and the county don't pay Social Security (FICA) taxes on the money you contribute to an FSA, your future Social Security benefits may be reduced slightly. However, you may find that the tax savings gained by participating in an FSA outweigh any loss in benefits. To be certain, you should consult a tax advisor.

Forfeiting Unused Balances

The county allows you to be reimbursed only for expenses incurred in the calendar year of your FSA.

You may request reimbursement from an FSA through March 31 of the following year for eligible expenses incurred during the calendar year. However, if FBMC doesn't receive your request by March 31, any funds remaining in your FSA after March 31 are forfeited, as required by IRS regulations.

How the Health Care FSA Works

The health care flexible spending account (FSA) gives you the opportunity to reduce your taxes and increase your take-home income. You can set aside money from your pay before taxes are calculated and then use those funds to reimburse yourself for eligible health care expenses you and your eligible family members incur.

Making Contributions

You may set aside from $300 up to $6,000 in before-tax dollars to pay for certain eligible health care expenses from a health care FSA. Alternatively, the IRS allows you to take a federal income tax deduction for certain eligible health care expenses if they exceed 7.5% of your adjusted gross income. For most people, the health care FSA makes the most sense, but you should consult a tax advisor to be sure.

When you enroll in a health care FSA during an annual open enrollment, you begin making contributions to your account:

- twice a month through payroll deduction over the next calendar year if you're paid on the 5th and 20th of the month; or
- every paycheck through payroll deduction over the next calendar year if you're paid every other week.

For example, if you're paid on the 5th and 20th of the month, the amount deducted is calculated by dividing your annual election by 24 pay periods. If you elected to contribute the maximum $6,000 amount to your FSA during the annual open enrollment, you would see a deduction of $250 per paycheck throughout the year.

Highly Compensated Employees

For plans subject to federal regulations, Internal Revenue Code rules define certain employees as "highly compensated"—that is, their annual salary is $100,000 or greater. Employees determined to be highly compensated may be subject to special rules that affect their FSA reimbursement benefits. If your reimbursement benefits are affected because you're determined to be highly compensated, you'll be notified.

HEALTH CARE AND DEPENDENT CARE FSAS DON'T MIX

Health care and dependent care FSAs are separate accounts. The funds you allocate for one cannot be used for the other, and you cannot transfer dollars between accounts.

If you're classified as a highly compensated employee as defined by the IRS, your contributions to the health care FSA may be limited, depending on the participation levels of employees who aren't classified as highly compensated. If employee participation doesn't reach certain federal benchmarks, your contributions may be restricted. The county reserves the right to make adjustments to highly compensated employee elections under the health care FSA necessary for the county to pass any required discrimination testing.

Midyear Enrollments

When you enroll in a health care FSA midyear as a newly benefit-eligible employee, you begin making contributions to your health care FSA through payroll deductions for the remainder of the calendar year. When you change your health care FSA as the result of a qualifying life event, the amount of your contribution to your account is adjusted for the remaining payroll periods in the calendar year.

The amount deducted is calculated by dividing your election by the number of remaining pay periods—for example, if you elected to contribute the $6,000 maximum to your health care FSA with 16 pay periods remaining in the calendar year, you would see a deduction of $375 per paycheck for the remainder of the year. (For information about contribution limits, see "Making Contributions" on page 220. For examples of events that allow you to enroll or make coverage changes during the year, see "Making Changes After a Qualifying Life Event" on page 213.)

Knowing What's Covered and What's Not

You may use a health care FSA to reimburse expenses for yourself and any dependent who qualifies for coverage under your benefit plans. However, the Internal Revenue Code doesn't allow you to use a health care FSA to reimburse expenses for a domestic partner and his/her children unless they live with you as members of your household and you provide more than half of their support during the calendar year of your FSA.

The Internal Revenue Code allows you to get reimbursed for expenses for:

- any "qualified child" who is related to you and is under age 19 at the end of the calendar year (unless the child is a student, in which case he/she must be 23 years old or younger at the end of the calendar year) and who lives with you for more than half of the year;
- any "qualified relative," such as a parent, stepparent, brother, stepbrother, sister, stepsister, stepchild, grandparent, grandchild, aunt, uncle, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law, who receives more than half of his/her support from you during the calendar year; and
- any person not related to you but who lives with you as a member of your household, receives more than half of his/her support from you during the calendar year and isn't the "qualified child" of another person.

IMPORTANT!

The rules determining support of your domestic partner's children are complex. You may wish to refer to IRS Publication 17 or consult a tax advisor.

If you get reimbursed for expenses from a health care FSA for any dependents other than your spouse or dependent children, you may be required to provide an affidavit certifying that they're eligible dependents based on the criteria described above.

(For detailed information on which expenses qualify for reimbursement, see "Covered Expenses" on page 222 and "Expenses Not Covered" on page 224.)

IMPORTANT!

You're responsible for making sure the expenses you submit for reimbursement are considered eligible expenses by the IRS.

Covered Expenses

In general, any health care expense that would be deductible on your federal income tax return is eligible for reimbursement, as long as you don't take a tax deduction for the same expense and you're not reimbursed for it in any other way. However, expenses for long-term care **aren't** eligible for FSA reimbursement, even though long-term care costs are tax-deductible. (For more information on expenses that aren't eligible for reimbursement, see "Expenses Not Covered" on page 224.)

Here is a list of health care expenses that generally are eligible for reimbursement through the health care FSA, as long as they're properly documented:

- acupuncture;
- ambulance;
- artificial limbs;
- birth control pills, condoms, spermicides, pregnancy/ovulation kits;
- Braille books and magazines;
- car controls for a disabled person;
- care for a mentally disabled child;
- chiropractor fees;
- Christian Science practitioner fees;
- coinsurance/copays;
- contact lenses and contact cleaning solutions;
- cosmetic procedures to correct a problem arising from a medical condition;
- crutches;
- deductibles for medical, dental and vision plans;
- dental fees;
- dentures;
- diagnostic fees;
- disabled person's cost for special home;

- drug addiction treatment;
- eyeglasses;
- eye exams;
- fertility treatment;
- hearing aids and batteries;
- home improvements for medical reasons;
- hospital bills;
- hypnosis for treatment of an illness;
- insulin;
- laboratory fees;
- learning disability;
- lifetime fee to retirement home for medical care;
- maternity care;
- naturopathic remedies (if prescribed by a physician for a medical condition);
- naturopathic treatment;
- new-baby expenses for medical conditions;
- obstetrical services;
- operations;
- optometrist;
- orthodontics (non-cosmetic purposes);
- orthopedic shoes;
- over-the-counter drugs used to treat/prevent illness/injury (limited);
- oxygen;
- physician fees;
- prescription drugs;
- psychiatric care;
- psychologist fees;
- radial keratotomy;
- routine physicals;
- Seeing-Eye dog and its upkeep;
- skilled-nurse fees (including board and Social Security (FICA) taxes you pay);

- smoking cessation;
- spa/pool equipment prescribed by physician and allowed by the IRS;
- special schools for mentally impaired or physically disabled person;
- telephone designed for hearing impaired person;
- television/hearing impaired equipment;
- therapeutic care for drug and alcohol addiction;
- therapy received as medical treatment;
- transportation expenses for medical purposes;
- tuition at special school for disabled person;
- tuition fee portion that goes for medical care;
- vaccines;
- weight loss programs (if prescribed by physician for medical condition);
- well-baby and well-child care;
- wheelchair;
- wigs required for medical purposes; and
- X-rays.

FOR MORE INFORMATION

You can find more examples of eligible expenses by referring to IRS Publication 502, Medical and Dental Expenses. Publication 502 is available at your local IRS office or on the IRS Web site, www.irs.gov. Publication 502 also may include references to medical savings accounts, or MSAs. MSAs aren't the same as FSAs.

If you're not sure whether an expense is eligible, consult a tax advisor or contact FBMC. (See *Contact Information*.)

Expenses Not Covered

Here is a list of health care expenses that aren't eligible for reimbursement through the health care FSA:

- cosmetic procedures for non-medical reasons;
- diaper services;
- divorce expenses (even if recommended by a physician);
- domestic help fees (for services of a non-medical nature);
- general counseling (for example, family, marital or couple counseling);
- health club programs, including fitness clubs and gyms;
- health insurance premiums;
- lens replacement insurance;

- long-term care insurance premiums and expenses;
- maternity clothes;
- parking fees;
- physical therapy treatments for general well-being; and
- vitamins, supplements and remedies taken for general well-being.

(For information on expenses that are eligible for reimbursement, see "Covered Expenses" on page 222.)

FOR MORE INFORMATION

You can find more examples of ineligible expenses by referring to IRS Publication 502, Medical and Dental Expenses. Publication 502 is available at your local IRS office or on the IRS Web site, www.irs.gov. Publication 502 also may include references to medical savings accounts, or MSAs. MSAs aren't the same as FSAs.

If you're not sure whether an expense is eligible, consult a tax advisor or contact FBMC. (See *Contact Information*.)

Filing a Claim

With a health care FSA, you may begin getting reimbursed from the FSA as soon as you incur eligible expenses during the FSA calendar year and your health care FSA reimbursement request has been received and approved. You don't have to wait until you have sufficient funds in your health care FSA before you can be reimbursed from it.

You're reimbursed for eligible expenses up to the maximum amount you elected, minus any previous reimbursements made during the calendar year. How eligible expenses are reimbursed from a health care FSA depends on the type of expense you have.

Expenses Partially Covered by Health Insurance

For expenses partially covered by health insurance, you file a claim with your health plan. When you receive your Explanation of Benefits (EOB), you see how much the plan paid and the remaining balance due. You then request reimbursement for the remaining balance.

Mail or fax a completed FBMC Reimbursement Request form together with the following:

- an invoice from your health care provider listing the date you received the service, the cost of the service, the specific type of service and the person for whom the service was provided; **or**
- an EOB from your health insurance provider that shows the specific type of service you received, the date and cost of the service, and any uninsured portion of the cost; **and**
- if necessary, because a service could be deemed cosmetic in nature, a written statement from your health care provider indicating that the service was medically necessary, accompanied by the invoice or EOB for the service.

FORMS

Forms are available at www.metrokc.gov/employees/benefits or from Benefits and Retirement Operations. (See *Contact Information*.)

Expenses Not Covered by Health Insurance

For expenses not covered by health insurance, complete the FBMC Reimbursement Request form and attach your itemized receipt for the expenses. Receipts must show date of service, cost, service performed and provider of service. Canceled checks, credit card receipts or statements showing only "balance due" or "payment on account" cannot be accepted. Fax or mail the information to FBMC. (See *Contact Information*.)

FORMS

Forms are available at www.metrokc.gov/employees/benefits or from Benefits and Retirement Operations. (See *Contact Information*.)

Orthodontia Expenses

For orthodontia services, a lump-sum payment to an orthodontist is eligible for full reimbursement. To be reimbursed, you must provide documentation, such as a receipt of payment, claim form or payment coupon, and it must include the patient's name, provider's name, date of service and cost of service. An orthodontia worksheet is no longer required, but a copy of your contract is required. Monthly payments will be reimbursed based on the actual amount paid. Orthodontia payments may be reimbursed over multiple plan years.

If Reimbursement Is Denied

If your claim for reimbursement is denied, FBMC will notify you in writing within 30 days of your request, explaining the specific reasons for the denial, your right to appeal and your right to obtain free copies of documentation related to the decision. If matters beyond FBMC's control require more time, the review period may be extended up to 15 days, and you'll be notified of the extension before the initial 30-day period ends. (For information about appeals, see "Flexible Spending Accounts" in "Claims Review and Appeals Procedures" in *Rules, Regulations and Administrative Information.*)

HOW THE DEPENDENT CARE FSA WORKS

The dependent care flexible spending account (FSA) gives you the opportunity to reduce your taxes and increase your take-home income. You can set aside money from your pay before taxes are calculated and then use those funds to reimburse yourself for eligible dependent care expenses.

To participate in a dependent care FSA, you must work full-time or part-time while your child (or children), disabled spouse or other disabled dependents (for example, a disabled parent) receive dependent care services. You also must meet one of the following eligibility requirements:

- you're a single parent;
- you have a working spouse;
- your spouse is a full-time student at least five months during the calendar year while you're working;
- your spouse is mentally or physically unable to care for himself/herself; or
- you're divorced or legally separated and have custody of your child most of the time even though your former spouse may claim the child for income tax purposes.

IMPORTANT

To get reimbursed for dependent care expenses, you must be working or on a paid leave of absence. If you're on an unpaid leave of absence, you won't be able to claim any dependent care expenses that occur during the period you're on the unpaid leave of absence.

Making Contributions

DEPENDENT CARE AND HEALTH CARE FSAS DON'T MIX

Dependent care and health care FSAs are separate accounts. The funds you allocate for one cannot be used for the other, and you cannot transfer dollars between accounts.

The minimum contribution you may make to a dependent care FSA is $300 per calendar year. The maximum you may contribute depends on your family situation, but that amount may not exceed $5,000. If more than one of the following situations applies to you, your maximum annual contribution is the lesser amount:

- If you're a working single parent, you may contribute up to $5,000 per calendar year.
- If you're married and file a joint income tax return, you may contribute up to $5,000 per calendar year. If your spouse also has access to a dependent care FSA, your combined contribution limit is $5,000.
- If you're married and file separate income tax returns, you may contribute up to $2,500 per calendar year.
- If you're married and your spouse earns less than $5,000, you may contribute up to the amount of your spouse's annual income.

Alternatively, you may take an income tax credit for your dependent care expenses of up to $3,000 per calendar year for one dependent or up to $6,000 per calendar year for two or more dependents.

To determine whether the dependent care FSA or the federal tax credit, or a combination of both, is best for you, consult a tax advisor to be sure.

When you enroll in a dependent care FSA during an annual open enrollment, you begin making contributions to your account:

- twice a month through payroll deduction over the next calendar year if you are paid on the 5th and 20th of the month; or
- every paycheck through payroll deduction over the next calendar year if you're paid every other week.

For example, if you're paid on the 5th and 20th of the month, the amount deducted is calculated by dividing your annual election by 24 pay periods. If you elected to contribute $4,500 to your FSA during the annual open enrollment, you would see a deduction of $187.50 per paycheck throughout the year.

Highly Compensated Employees

For plans subject to federal regulations, Internal Revenue Code rules define certain employees as "highly compensated"—that is, their annual salary is $100,000 or greater. Employees determined to be highly compensated may be subject to special rules that affect their FSA reimbursement benefits. If your reimbursement benefits are affected because you're determined to be highly compensated, you'll be notified.

If you're classified as a highly compensated employee as defined by the IRS, your contributions to the dependent care FSA may be limited, depending on the participation levels of employees who aren't classified as highly compensated. If employee participation doesn't reach certain federal benchmarks, your contributions may be restricted. The county reserves the right to make adjustments to highly compensated employee elections under the dependent care FSA necessary for the county to pass any required discrimination testing.

Midyear Enrollments

When you enroll in a dependent care FSA midyear as a newly benefit-eligible employee, you begin making contributions to your dependent care FSA through payroll deductions for the remainder of the calendar year. When you change your dependent care FSA as the result of a qualifying life event, the amount of your contribution to your account is adjusted for the remaining payroll periods in the calendar year.

The amount deducted is calculated by dividing your election by the number of remaining pay periods—for example, if you elected to contribute the $5,000 maximum to your dependent care FSA with 16 pay periods remaining in the calendar year, you would see a deduction of $312.50 per paycheck for the remainder of the year. (For information about contribution limits, see "Making Contributions" on page 228. For examples of events that allow you to enroll or make coverage changes during the year, see "Making Changes After a Qualifying Life Event" on page 213.)

Knowing What's Covered and What's Not

You may use a dependent care FSA to pay for eligible dependent care expenses for your child (or children), disabled spouse or elderly dependent parent, as defined below:

- a child under age 13 with whom you have a "specified relationship" and for whom you're entitled to claim a deduction on your federal tax return. For children of divorced or separated parents, only the parent with whom the child resides for more than half of the calendar year can claim the child as an eligible dependent under the dependent care FSA;
- an incapacitated parent residing in your household for whom you provide a majority of support and who lives with you for more than half of the calendar year;
- your child of any age who is physically or mentally unable to care for himself/herself and who lives with you for more than half of the calendar year; and
- your spouse who is physically or mentally unable to care for himself/herself and who lives with you for more than half of the calendar year.

A qualifying “specified relationship” to the taxpayer for a child under 13 is defined as a son, daughter, stepson, stepdaughter, brother, sister, stepbrother, stepsister or a descendant of any such individual. Legally adopted children and foster children are considered to be children of the taxpayer.

Under the Working Families Tax Relief Act, you’re not required to provide more than half of the cost of maintaining your household in order for your dependents to be eligible for dependent care FSA expenses.

(For detailed information on which expenses qualify for reimbursement, see “Covered Expenses” on page 230 and “Expenses Not Covered” on page 231.)

A NEW TEENAGER IN THE FAMILY?

Once your child turns age 13, expenses incurred for his/her dependent care are no longer eligible for reimbursement under the dependent care FSA (unless your dependent is disabled), so you may want to change your contribution amount. Your child’s loss of dependent eligibility counts as a qualifying life event and gives you the opportunity to reduce or stop your contributions. (For more information, see “Making Changes After a Qualifying Life Event” on page 213.)

Covered Expenses

Here is a list of dependent care expenses that are eligible for reimbursement through the dependent care FSA:

- care provided inside or outside your home by anyone other than your spouse, a person you list as your dependent for income tax purposes, or one of your children under age 19;
- a dependent care center or child care center (if the center cares for more than six children, it must comply with all applicable state and local regulations);
- a housekeeper, au pair or nanny whose services include, in part, providing care for a qualifying dependent; and
- adult care for an incapacitated spouse or parent. This includes only the day care expenses; nursing/medical care doesn’t qualify for reimbursement through a dependent care FSA, but may qualify under a health care FSA.

To qualify for reimbursement, you must provide your dependent care provider’s tax ID number, Social Security number or license number on your federal tax return. If you fail to do so, your dependent care FSA reimbursements may be reclassified as taxable income by the IRS. You must still complete IRS Form 2441 when reporting taxes at the end of each calendar year.

(For information on expenses that aren’t eligible for reimbursement, see “Expenses Not Covered” on page 231.)

IMPORTANT!

You’re responsible for making sure the expenses you submit for reimbursement are considered eligible expenses by the IRS.

FOR MORE INFORMATION

Because the expenses that are eligible for reimbursement under the dependent care FSA are the same as those eligible for the federal tax credit, you can get additional examples of eligible expenses by referring to IRS Publication 503, Child and Dependent Care Expenses. Publication 503 is available at your local IRS office or on the IRS Web site, www.irs.gov.

If you're not sure whether an expense is eligible, consult a tax advisor or contact FBMC. (See *Contact Information*.)

Expenses Not Covered

Here is a list of dependent care expenses that aren't eligible for reimbursement through the dependent care FSA:

- books and supplies;
- child support payments or child care if you are a non-custodial parent;
- health care or educational tuition costs;
- services provided by your dependent, your spouse's dependent or your child who is under age 19; and
- overnight camps and education, including kindergarten (but summer day camps are eligible).

However, if the cost of tuition and dependent care can be separated, the itemized cost of the dependent care is reimbursable. (For more information on expenses that are eligible for reimbursement, see "Covered Expenses" on page 230.)

Filing a Claim

To get reimbursed from a dependent care FSA, complete FBMC's Reimbursement Request form and attach any appropriate receipts or have the dependent care provider sign the claim form instead of a receipt. Fax or mail the information to FBMC. (See *Contact Information*.)

FORMS

Forms are available at www.metrokc.gov/employees/benefits or from Benefits and Retirement Operations. (See *Contact Information*.)

If you submit a reimbursement request for an amount that is more than your FSA balance, you're reimbursed up to your current FSA balance. When future contributions are made to your FSA, you automatically receive another reimbursement until your total claim amount has been reimbursed or you reach your election amount for the calendar year.

If Reimbursement Is Denied

If your claim for reimbursement is denied, FBMC will notify you in writing within 30 days of your request, explaining the specific reasons for the denial, your right to appeal and your right to obtain free copies of documentation related to the decision. If matters beyond FBMC's control require more time, the review period may be extended up to 15 days, and you'll be notified of the extension before the initial 30-day period ends. (For information about appeals, see "Flexible Spending Accounts" in "Claims Review and Appeals Procedures" in *Rules, Regulations and Administrative Information.*)

GLOSSARY

COBRA

The Consolidated Omnibus Budget Reconciliation Act of 1986 gives plan members the ability to continue health care coverage after leaving employment.

Dependent care FSA expenses

These are expenses for dependent care that are eligible for reimbursement through a flexible spending account.

Family and Medical Leave Act (FMLA)

This federal law allows employees to take unpaid leave because of illness or to care for a sick family member.

Federal tax credit

A federal tax credit is given to an individual or business as credit for a payment already made toward taxes owed.

FICA

The Federal Insurance Contributions Act is an employment tax imposed in an equal amount on employees and employers to fund federal programs for retirees, the disabled and children of deceased workers. FICA taxes support Social Security and Medicare.

Health care FSA expenses

These are expenses for health care that are eligible for reimbursement through a flexible spending account.

Internal Revenue Code Section 125

This section of the Internal Revenue Code sets the rules and regulations governing the use of before-tax payments for employer benefit plans, such as flexible spending accounts.

Internal Revenue Code Section 152

This section of the Internal Revenue Code sets the rules and regulations governing the definition and eligibility of dependents for various employer benefit plans, such as flexible spending accounts.

Retiree medical benefit

The retiree medical benefit is offered by King County to its retirees as a self-pay alternative to COBRA in continuing health coverage at the time of retirement up to the age of 65.